

August 2017

## The case for investing in the Neptune India Fund

- The Neptune India Fund run by manager Kunal Desai is a high-conviction strategy which invests in the fastest growing economy in the world
- The Neptune fund's bottom-up process means has relatively broad exposure across all equity sectors. The Neptune Fund derives the majority of its significant outperformance from stock-picking
- The Fund is overweight small and mid-caps. Greater valuation support, mispricing opportunities and the potential for a domestic liquidity super-cycle are driving the Neptune fund's conviction in the outlook for these areas
- The Neptune India Fund has significantly outperformed the MSCI India Index over one, three and five year periods
- The Neptune India Fund's outperformance has not come at the expense of volatility - it has demonstrated lower volatility than peers such as Jupiter India and India and Goldman Sachs India Equity over three years

*Source: Morningstar Direct, 01/08/2012 – 31/07/2017, primary share class performance in pound sterling, net income reinvested and no initial charges. The performance of other share classes may differ and past performance is not a guide to future performance. Neptune funds are not tied to replicating a benchmark and holdings can therefore vary from those in the index quoted. For this reason the comparison index should be used for reference only.*

## Introduction

The Neptune India Fund is a high-conviction portfolio of manager Kunal Desai's best ideas in this fast growing economy.

India has enjoyed an impressive bull run in recent years. Fears of a negative wealth shock in the fallout from demonetisation temporarily knocked the market off its upward trajectory, although share prices have recovered and the market is now back to pre-demonetisation levels. The anticipated accompanying liquidity squeeze has not materialised, with 97% of the cash being put back into the banking system. It is also encouraging to see that global reflation has benefitted India, despite oil prices increasing – this shows the economy's reduced sensitivity to the changing macro environment.

India continues to be the fastest growing major economy in the world, with GDP consistently registering above 7% per annum under Modi's leadership. It remains on track to become the world's third largest economy by 2030.

## Process

The portfolio construction of the Fund is centred on a three silo approach, which is also used by colleagues Ewan Thompson and Thomas Smith, as well as manager of Neptune UK Mid Cap Fund Mark Martin.

The initial investment universe is narrowed down to a watchlist via quantitative and qualitative screening. This is filtered according to accounting, corporate governance, thematic and liquidity requirements. Kunal categorises the companies in the watchlist into three-silos; **structural growth** (high-quality, best-in-class companies with strong franchises), **economic recovery** (companies that are geared into economic tailwinds and which tend to exhibit more cyclical earnings profiles and higher operating leverage); and **corporate turnarounds** (previously poor performing companies set for a reverse in fortunes, due to a management change or a new strategic plan).

By having at least 20% of the portfolio invested in each of these three silos, the Fund seeks to offer investors diversified exposure to India that is able to outperform over the market cycle. Typically the three silos have a lower correlation to one another, which also helps to dampen downside risk and volatility.

The portfolio can have between 30 and 50 holdings.

## Current silo weightings

### STRUCTURAL GROWTH



35%

Healthcare Generics

FMCG & Media

### ECONOMIC RECOVERY



32%

Infrastructure & Cement

Wholesale banks

### SELF HELP



33%

Mahindra

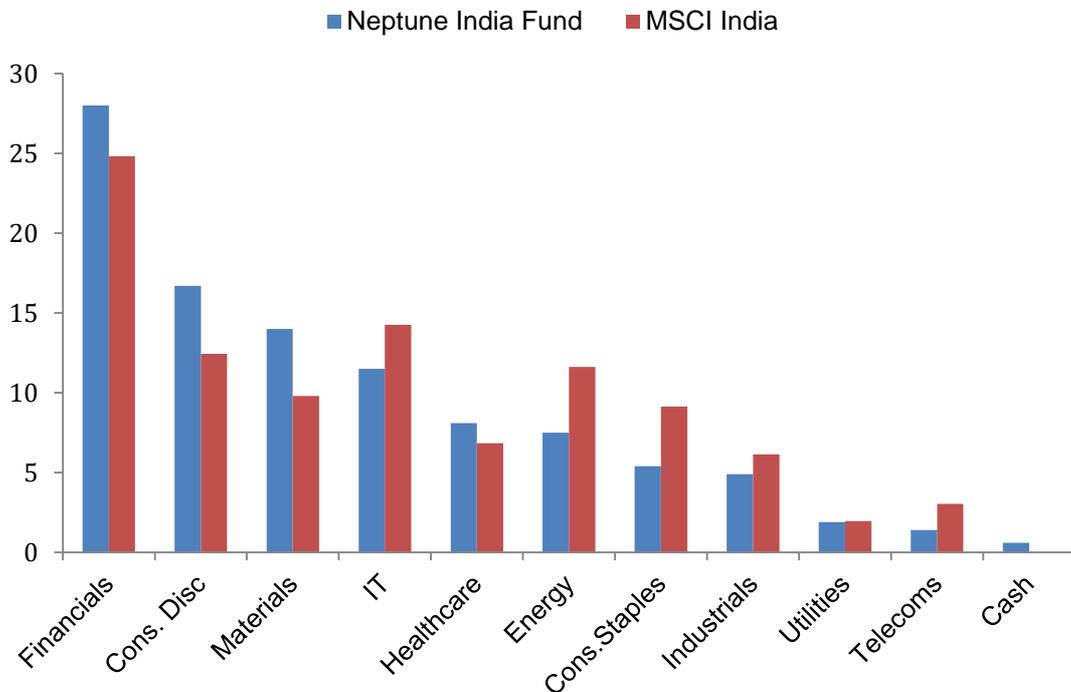
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*Neptune as at 30.04.17. References to specific securities are for illustration purposes only and should not be taken as a recommendation to buy or sell these securities. Past performance is not a guide to future performance.*

## Positioning

The Neptune India Fund is fairly evenly spread across different sectors, this is indicative of the Neptune fund's bottom up investment process as well as the broad opportunity set offered by India's diverse equity market. Manager Kunal Desai finds ideas across a range of sectors using a three silo approach described later in this document. The Neptune India Fund derives the majority of its significant outperformance from stockpicking.

## GICS Sector Exposure



*Source: Neptune and Bloomberg as at 31/07/2017 Past performance is not a guide to future performance. Neptune funds are not tied to replicating a benchmark and holdings can therefore vary from those in the index quoted. For this reason the comparison index should be used for reference only.*

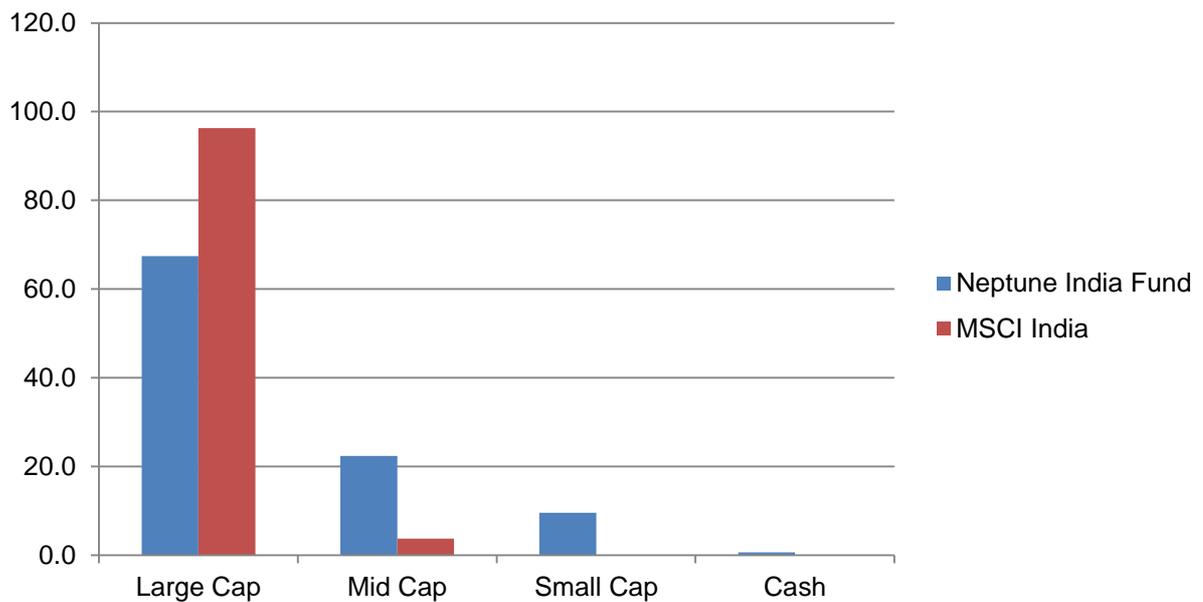
Mid-caps are a key overweight within the Neptune Fund; it is here that we find the most mispriced opportunities with greater valuation support and have identified several structural drivers that should continue to benefit the mid-cap space.

The potential for a domestic liquidity super-cycle in India should provide a further boost for both small and mid-cap companies. A number of government reforms have seen bank deposits in India increase; most recently, in the three weeks after demonetisation, more than 30 million bank accounts were set up as more rural parts of the market moved their savings from cash and gold towards financial saving schemes. Banks across the countries are now looking to cross-sell a wide array of equity and debt saving schemes as their deposits have surged. This will boost the mid-cap and small-cap space most, given the composition of domestic Indian mutual.

This trend is further supported by the national pension scheme increasing its equity allocation from 5% to 15%.

Neptune's £106 million AUM gives us significant flexibility to invest in small and mid-cap companies without liquidity constraints.

## Market Capitalisation Breakdown

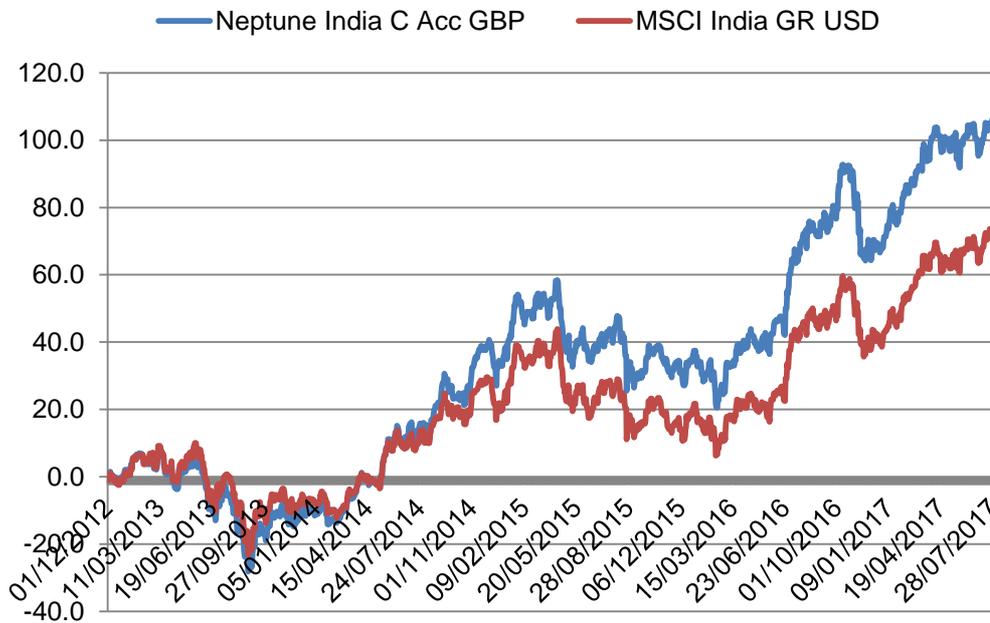


*Source: Morningstar Direct, as at 31/07/2017 Past performance is not a guide to future performance. Neptune funds are not tied to replicating a benchmark and holdings can therefore vary from those in the index quoted. For this reason the comparison index should be used for reference only. This Fund holds smaller company stocks which can be higher risk than those in larger companies.*

## Performance

The Neptune India Fund has significantly outperformed the MSCI India Index under Kunal Desai, who took over the Fund in December 2012.

## Performance for Kunal Desai tenure %



|                      | 1 Year       | 3 Years      | 5 Years       |
|----------------------|--------------|--------------|---------------|
| <b>Neptune India</b> | <b>21.27</b> | <b>80.59</b> | <b>134.22</b> |
| MSCI India GR USD    | 20.57        | 54.48        | 98.08         |

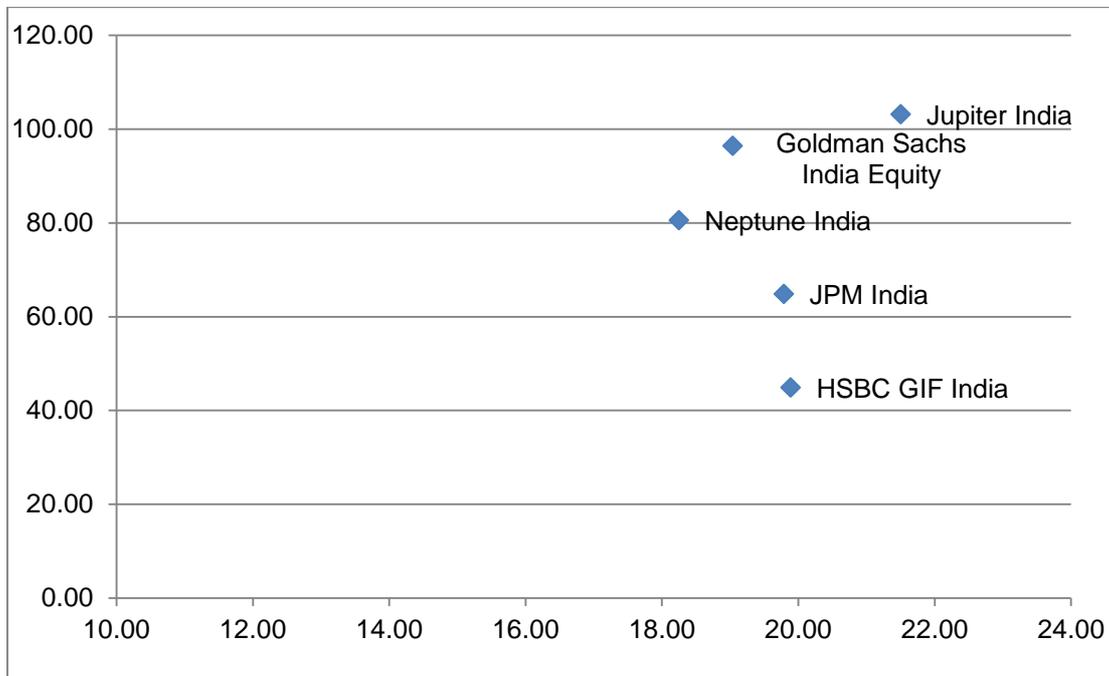
## Risk Statistics

|                      | 1 Year             |              |               | 3 Years            |              |               | 5 Years            |              |               |
|----------------------|--------------------|--------------|---------------|--------------------|--------------|---------------|--------------------|--------------|---------------|
|                      | Standard Deviation | Sharpe Ratio | Max Drawdown  | Standard Deviation | Sharpe Ratio | Max Drawdown  | Standard Deviation | Sharpe Ratio | Max Drawdown  |
| <b>Neptune India</b> | <b>16.95</b>       | <b>1.21</b>  | <b>-14.78</b> | <b>18.25</b>       | <b>1.15</b>  | <b>-23.87</b> | <b>19.96</b>       | <b>0.93</b>  | <b>-34.01</b> |
| MSCI India GR USD    | 15.90              | 1.24         | -15.07        | 17.94              | 0.88         | -26.16        | 19.07              | 0.79         | -30.20        |

Source: Morningstar Direct, 01/08/2012 – 31/07/2017, primary share class performance in pound sterling, net income reinvested and no initial charges. The performance of other share classes may differ and past performance is not a guide to future performance. Neptune funds are not tied to replicating a benchmark and holdings can therefore vary from those in the index quoted. For this reason the comparison index should be used for reference only.

While the Fund is slightly more volatile than its benchmark, against which it has significantly outperformed, it has displayed less volatility than many of its key peers.

## 3 year risk adjusted returns



Source Morningstar Direct 01/08/2014 to 31/07/2017, primary share class performance in pound sterling, net income reinvested and no initial charges. The performance of other share classes may differ and past performance is not a guide to future performance.

### Consistent outperformance

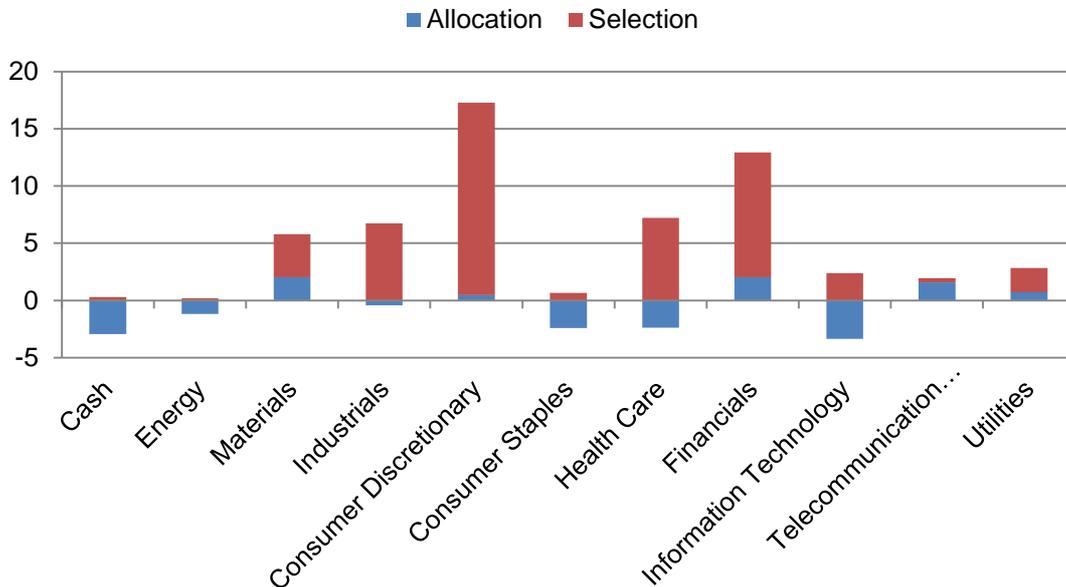
Kunal Desai's three silo approach and disciplined focus on high conviction investing ensures that the Neptune India Fund is capable of outperforming throughout the market cycle, in both rising and falling markets.

This is illustrated by the consistent outperformance of the Fund under Kunal in different market conditions. The Neptune India Fund has outperformed in each of the last three calendar years, which has included rising markets (2014 and 2016) and falling markets (2015). The Fund is also ahead of the index so far in 2017.

The manager looks to equally weight his three silos – although he can tactically tilt the portfolio at certain times – and as such we would say that the fund is style agnostic. This approach also means the Fund is capable of outperforming when certain investment styles and factors are in vogue, such as value, growth and momentum.

The Fund's consistency of performance is also due the strength of stock selection within the portfolio. The majority of its outperformance is derived from stock-picking.

## Relative Performance under Kunal Desai



Source: Neptune as at 31.07.17. C Accumulation GBP share class performance. Kunal Desai start date: 01.12.12. The performance of other share classes may differ. Past performance is not a guide to future performance. Neptune funds are not tied to replicating a benchmark and holdings can therefore vary from those in the index quoted. For this reason the comparison index should be used for reference only.

### Important Information

#### For Professional Investors only.

#### Investment risks

This Fund may have a high volatility rating and past performance is not a guide to future performance. The value of an investment and any income from it can fall as well as rise as a result of market and currency fluctuations and your clients may not get back the original amount invested. Investments in emerging markets are higher risk and potentially more volatile than those in established markets. A majority of investments made by the Fund may be in smaller and medium sized companies which can be higher risk than those in larger companies. References to specific securities and sectors are for illustration purposes only and should not be taken as a solicitation to buy or sell these securities. Neptune funds are not tied to replicating a benchmark and holdings can therefore vary from those in the index quoted. For this reason the comparison index should be used for reference only. Please remember that forecasts are not a reliable indicator of future performance. The content of this document is formed from Neptune's views as at the date of issue. We do not undertake to advise you as to any change of our views. Neptune does not give investment advice and only provides information on Neptune products. Please refer to the Prospectus for further details.